

Message Text

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ACTION EUR-12

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SUBJECT: FINLAND FOLLOWS SWEDISH DEVALUATION

REF: (A) HELSINKI 0663, (B) HELSINKI 0651

1. FINNISH GOVT APPROVED MONDAY NIGHT BANK OF FINLAND PROPOSAL TO LOWER FINNMARK BY AVERAGE OF 5.7 PERCENT AGAINST BASKET OF 13 CURRENCIES USED IN FINANCING FINNISH FOREIGN TRADE. FINNMARK DEVALUED AGAINST U.S. DOLLAR 7.2 PERCENT. NEW DOLLAR EXCHANGE AS OF APRIL 15 IS 4.066 FINNMARKS. IN TODAY'S MARKETS FINNMARK HAD DEPRECIATED BY 2.8 PERCENT VIS-A-VIS SWEDISH CROWN IN COMPARISON WITH FRIDAY'S QUOTATIONS.

2. DEVALUATION DECISION MADE AFTER DAY-LONG NEGOTIATIONS BETWEEN BANK OF FINLAND, LABOR MARKET ORGANIZATIONS AND GOVT. IN PUBLIC ANNOUNCEMENT GOVT REFERRED TO RECENT
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DEVALUATIONS OF SWEDISH, NORWEGIAN AND DANISH CROWNS AND SAID THAT FINNMARK DEVALUATION NECESSARY TO PREVENT WEAKENING OF COUNTRY'S INTERNATIONAL COMPETITIVENESS VIS-A-VIS SWEDEN. PRIMIN MARTTI MIETTUNEN HAS ANNOUNCED THAT GOVT DOES NOT INTEND IMPOSE PRICE FREEZE OR EXPORT LEVIES IN WAKE OF MINI-DEVALUATION, AND THAT GOVT WILL ATTEMPT KEEP DEVALUATION BENEFIT IN EXPORT SECTOR.

KARI NARS, BANK OF FINLAND DIRECTOR, TOLD US THAT VAGUE STATEMENT ABOUT KEEPING DEVALUATION BENEFIT IN EXPORT SECTOR REFERS TO COMMITMENT NOT TO APPLY EXPORT LEVIES AND LABOR LEADERS' COMMITMENT NOT TO SEEK SPECIAL COMPENSATION (SEE BELOW). EARLY ESTIMATES SHOW THAT DEVALUATION WILL CAUSE ROUGHLY 1.5 PERCENT INCREASE IN CONSUMER PRICES.

3. BANK OF FINLAND GOVERNOR MAUNO KOIVISTO SAID THAT YESTERDAY'S DEVALUATION DISCUSSIONS WERE IN RANGE OF 4 TO 6 PERCENT. PENTTI SOMERTO, HEAD OF CENTRAL EMPLOYERS FEDERATION (STK) TOLD US THAT AT NO TIME WAS A DEVALUATION CONSIDERED THAT WOULD HAVE APPEARED LARGER THAN THE SWEDISH DEVALUATION. A LARGER DEVALUATION WOULD HAVE HAD TO BE DEFENDED NOT AS A REACTION UNDER DURESS TO THE SCANDINAVIAN DEVALUATIONS BUT AS MOTIVATED BY DOMESTIC CONSIDERATIONS AND THEREFORE MORE VULNERABLE TO DEMANDS FROM LABOR FOR COMPENSATION. THIS WOULD HAVE FORECLOSED THE POSSIBILITY OF SETTLEMENTS ALONG LINES THAT HAVE BEEN PROPOSED BY STATE-APPOINTED MEDIATOR LIINAMAA. LABOR LEADERS WERE CONSULTED BEFORE DEVALUATION DECISION. SOCIAL DEMOCRATIC LABOR LEADERS' APPROVAL OF 6 PERCENT UPPER LIMIT WAS CRUCIAL TO DEVALUATION DECISION. COMMUNIST LABOR LEADERS WHO ARE MINORITY HAVE ALREADY INSISTED ON RIGHT TO EXERCISE DEVALUATION ESCAPE CLAUSE OF EXISTING WAGE AGREEMENT TO GAIN COMPENSATION FROM EFFECTS OF DEVALUATION. HOWEVER, SOMERTO TOLD US HE IS CONFIDENT THAT RECENTLY NEGOTIATED WAGE AGREEMENTS WILL HOLD UP.

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4. STATE LABOR MEDIATOR KEIJO LIINAMAA PUBLICLY STATED TODAY THAT WHEN HE PROPOSED DEVALUATION ESCAPE CLAUSE IN EARLY MARCH AS PART OF BASIS FOR WAGE SETTLEMENTS HE INTENDED THAT IT NOT BE TRIGGERED UNLESS CHANGE IN FINNMARK EXCHANGE RATE WAS 10 PERCENT OR MORE. CHAIRMAN OF LABOR FEDERATION (SAK) PEKKA OIVIO ANNOUNCED TODAY THAT HE WILL NOT DEMAND ADDITIONAL WAGE INCREASES NOR NULLIFICATION OF EXISTING WAGE AGREEMENTS UNDER DEVALUATION ESCAPE CLAUSE. SOMERTO TOLD US THAT LEADERS OF LABOR MARKET ORGANIZATIONS WILL MEET UNDER DIRECTION OF LIINAMAA ON THURSDAY OF THIS WEEK TO DISCUSS DEVALUATION ESCAPE CLAUSE. SOMERTO EXPECTS THAT THURSDAY MEETING WILL LEAD TO COMMITMENT FROM LABOR TO KEEP PRESENT AGREEMENTS AND NOT PRESS FOR COMPENSATION. HE ADMITTED, HOWEVER, THAT ALREADY LABOR LEADERS WHO HAVE EXPRESSED COMMITMENT NOT TO PRESS FOR INCREASED BENEFITS ON GROUNDS OF DEVALUATION HAVE NONETHELESS INDICATED THAT THEY WILL EXPECT A LITTLE EXTRA.

5. MANAGING DIRECTOR OF FINLAND'S LARGEST PAPER COMPANY

HAS SAID THAT MINI-DEVALUATION WILL GIVE NO NOTICEABLE BENEFIT TO FOREST INDUSTRY. HE CLAIMS THAT DEVALUATION PROTECTS FINNISH EXPORTS FROM INTENSIFIED SWEDISH COMPETITION IN IMPORTANT WEST EUROPEAN MARKETS, BUT WILL NOT INCREASE EXPORT VOLUME.

6. MIETTUNEN'S ANNOUNCEMENT THAT GOVT WOULD NOT IMPOSE PRICE FREEZE CONTRASTS WITH THE RANGE OF MEASURES ANNOUNCED IN SWEDEN (STOCKHOLM 1455). WITH THE APPARENT COOPERATION OF A NUMBER OF SOCIAL DEMOCRATIC LABOR LEADERS, AND, AS NARS CONFIRMED, WITH CONTINUED TIGHT MONETARY POLICY BY BANK OF FINLAND, MONORITY GOVT SEEMS AT MOMENT TO BE RELYING ON CONTINUATION OF PRESENT POLICY LINES TO DAMPEN INFLATIONARY EFFECTS, WHILE AVOIDING NEW MEASURES THAT MIGHT PRECIPITATE COMPLICATING REACTIONS. (NARS SAID THAT BANK OF FINLAND HAS MOVED TO REDUCE AVAILABILITY OF CREDIT FOR BANKS BY FMK 200 MILLION, FOR LIMITED OFFICIAL USE

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TECHNICAL REASONS ASSOCIATED WITH DEVALUATION.) WHETHER LABOR LEADERS' INITIAL PUBLIC COMMENT WILL TURN OUT TO BE REPRESENTATIVE OF PREPONDERANCE OF LABOR REMAINS TO BE SEEN. COMMUNIST LABOR LEADERS WILL CERTAINLY STEP UP DEMANDS FOR LARGER INCREASES IN NEGOTIATIONS NOT YET CONCLUDED.
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